

## Message Text

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SUBJECT: ECONOMIC SITREP NO. 34, THURSDAY, DECEMBER 23

REF: ROME 20508

1. SUMMARY. DECEMBER 21 MEETINGS OF UNION REPRESENTATIVES FIRST WITH FINANCE MINISTER PANDOLFI AND THEN WITH ECONOMIC EXPERTS OF POLITICAL PARTIES CONCENTRATED ON REDUCTION IN LABOR COSTS, 1977 EXPENDITURE LEVELS AND POSSIBLE NEED FOR NEW TAXES. PRESS REPORTS DIFFERNECE OF OPINION BETWEEN MINTREAS AND MINFINANCE AS TO WHETHER ADDITIONAL NEW TAXES WILL BE REQUIRED, WITH MINFIN RESISTING FURTHER INCREASE. GOI SEEMS TO BE BACKING OFF FURTHER FROM POSSIBLE INTRODUCTION OF RATIONING OF MEAT AND PETROLEUM PRODUCTS. CABINET EXPECTED TO APPROVE ON DECEMBER 23 335 BILLION LIRE BAILOUT FOR STATE HOLDING COMPANY EGAM. OCTOBER LABOR FORCE FIGURES SHOWED INCREASE BOTH IN EMPLOYMENT AND IN UNEMPLOYMENT COMPARED TO OCTOBER A YEAR AGO. LITTLE CHANGE IN MONEY AND FINANCIAL MARKETS. LIRA STEADY ON LOW COMMERCIAL DEMAND: 865.275 ON DECEMBER 22. END SUMMARY

2. POSSIBLE NEW TAXES. PUBLIC DEBATE CONTINUES ON WHETHER OR NOT ADDITIONAL TAXES WILL BE REQUIRED IN 1977, BOTH TO PERMIT REQUIRED REDUCTION IN TREASURY CASH DEFICIT AND TO  
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FINANCE VARIOUS EXPENDITURE PROGRAMS (PARTICULARLY NEW INVESTMENT AND COST OF NEW LABOR CONTRACT FOR PUBLIC SECTOR EMPLOYEES). IN DISCUSSION WITH UNIONS DECEMBER 21, MINFIN PANDOLFI TOLD UNIONS THAT GOI WOULD NOT BE IN POSITION TO MAKE FINAL JUDGMENT ON NEED FOR ADDITIONAL TAXES UNTIL END-JANUARY. AT THAT TIME, UP TO DATE ASSESSMENT OF ADDITIONAL 1975 EXPEN-

DITURES, PROSPECTS FOR IMPROVED TAX COLLECTIONS AND OUTCOME OF BUSINESS AND UNION TALKS ON LABOR COSTS WOULD PERMIT FINAL GOI DECISION ON NEED FOR NEW TAXES. ACCORDING TO PANDOLFI, ANY SUCH INCREASES SHOULD BE IN VALUE ADDED TAX, POSSIBLY THROUGH COMBINING DIFFERENT EXISTING RATES INTO MORE LIMITED NUMBER OF RATES. MINTREAS STAMMATI HAS EXPRESSED MUCH MORE SKEPTICISM THAN PANDOLFI ABOUT ADEQUACY OF TAX REVENUES IN 1977 AND HAS POINTED OUT THAT IT IS MINISTER OF TREASURY, AND NOT MINISTER OF FINANCE, WHO HAS CONSTITUTIONAL RESPONSIBILITY FOR ASSURING ADEQUATE FINANCING OF PUBLIC EXPENDITURES. STAMMATI HAS ALSO MENTIONED EXPECTED GOI COMMITMENT TO EC AND IMF TO LIMIT 1977 TREASURY CASH DEFICIT TO 9,800 BILLION LIRE.

3. LABOR COSTS. UNIONS ALSO HELD MEETING ON DECEMBER 21 WITH ECONOMIC EXPERTS OF ALL PARTIES SUPPORTING ANDREOTTI GOVERNMENT OR ABSTAINING IN PARLIAMENT (PLUD PDUP). TWO MAIN TOPICS COVERED WERE SCALA MOBILE AND FISCALIZATION OF SOCIAL COSTS. DC EXPERT SUPPORTED CHANGE IN SCALA MOBILE WAGE ADJUSTMENTS FROM QUARTERLY TO SEMI-ANNUAL BASIS, SUGGESTED SOME CHANGES IN SCALA MOBILE "BASKET" OF GOODS AND SERVICES, AND WAS OPEN TO SOME FISCALIZATION OF SOCIAL COSTS FINANCED FROM IVA TAX INCREASE. PCI EXPERT ALSO LEFT DOOR PARTLY OPEN TO POSSIBLE REDUCTION IN FREQUENCY OF SCALA MOBILE ADJUSTMENTS AND SUGGESTED 1,000 BILLION LIRE CEILING ON ANY 1977 FISCALIZATION OF SOCIAL COSTS. REPUBLICAN EXPERT PROPOSED THAT GROWTH OF PUBLIC EXPENDITURES BE RESTRICTED AND THAT UNIONS RENOUNCE COMPANY LEVEL WAGE NEGOTIATIONS IN 1977 AND ACCEPT FUNDAMENTAL MODIFICATION IN AUTOMATIC WAGE ADJUSTMENT MECHANISMS. SOCIALIST EXPERT GENERALLY SUPPORTED UNION'S HARD LINE LIMITED OFFICIAL USE

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ON LABOR COSTS BUT INDICATED THAT PSI WAS FAVORABLE TO FISCALIZATION OF SOCIAL COSTS NOW PAID BY BUSINESS IN RANGE 1,000 TO 1,200 BILLION LIRE.

4. OUTCOME OF THIS MEETING WAS TO LEAVE OPEN SOME POSSIBILITY OF CHANGING SCALA MOBILE TO SEMI-ANNUAL BASIS AND OF ADOPTING LIMITED FISCALIZATION OF SOCIAL INSURANCE COSTS. CALENDAR OF MEETINGS ON LABOR COSTS AND RELATED QUESTIONS IS: DECEMBER 29, MEETING OF UNIONS WITH GOVERNMENT (GENERALLY DESCRIBED AS "FINAL" SESSION); JANUARY 3-4 POSSIBLE SECOND MEETING BETWEEN LABOR AND POLITICAL PARTY ECONOMIC EXPERTS; JANUARY 7-8 NATIONAL ASSEMBLY OF MEMBER UNIONS OF THREE CONFEDERATIONS; AND PRESUMED MID-JANUARY FINAL MEETING BETWEEN LABOR CONFEDERATIONS AND CONFINDUSTRIA. PANDOLFI REFERENCE TO END-JANUARY DECISIONS ON NEW TAXES (SEE ABOVE) SUGGESTS THAT GOI NOW FORESEES COMPLETION OF STABILIZATION PROGRAM BY THAT TIME. (SENATE RECESSED DECEMBER 21 AND WILL RECONVENE JANUARY 10; CHAMBER OF DEPUTIES RECESSED DECEMBER 22 AND WILL ALSO RECON-

ENE JANUARY 10.)

5. RATIONING. POSSIBILITY OF RATIONING OF MEAT AND PETROLEUM PRODUCTS SEEMS TO HAVE RECEDED IN RECENT DAYS. DC CHAMBER GROUP HAS COME OUT PUBLICLY AGAINST RATIONING AND GOI SPOKESMEN HAVE CONTINUED TO STRESS THAT GOI IS MERELY PREPARING FOR RATIONING IN EVENT THAT SOME EMERGENCY ECONOMIC SITUATION DEVELOPS.

6. BAIL-OUT FOR EGAM COMPANIES. CABINET IS EXPECTED TO APPROVE DECREE LAW ON DECEMBER 23 ALLOCATING 335 BILLION LIRE TO STATE HOLDING COMPANY EGAM (HOLDING COMPANY FOR MINERAL AND SOME INDUSTRIAL COMPANIES). FUNDS ARE TO BE USED TO MEET SALARY COSTS, RECONSTITUTE CAPITAL BASE AND COVER OUTSTANDING DEBTS TO SUPPLIERS OF SEVERAL EGAM COMPANIES, WHICH ARE TO BE PLACED IN LIQUIDATION. (TOTAL EMPLOYMENT INVOLVED OF THESE FIRMS IS ABOUT 18,000.) OF TOTAL APPROPRIATION 130 BILLION LIRE IS MEANT TO COVER EXPENDITURES TO BE MADE BEFORE END-YEAR AND LIMITED OFFICIAL USE

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ADDITIONAL 205 BILLION LIRE WOULD COVER THESE EXPENSES THROUGH END-MARCH 1977, AT WHICH TIME GOI IS TO PROPOSE RESTRUCTURING OF EGAM. SOURCE OF FINANCING OF THESE EXPENDITURES IS UNCLEAR.

7. OCTOBER LABOR FORCE SURVEY. FINAL 1976 ISCO QUARTERLY SURVEY OF LABOR COSTS FOR OCTOBER (SEE ROME 20606) WAS PUBLISHED THIS WEEK. SURVEY DATA (WHICH ARE NOT ADJUSTED FOR SEASONALITY) SHOWED DROP IN EMPLOYMENT FROM JULY FIGURE BUT INCREASE OVER OCTOBER 1975. TOTAL UNEMPLOYMENT WAS VIRTUALLY UNCHANGED FROM JULY BUT UP OVER OCTOBER ONE YEAR AGO, WITH INCREASE ALMOST EXCLUSIVELY DUE TO UNEMPLOYED WORKERS SEEKING FIRST JOB. SHORT-TIME WORKERS INCREASED SLIGHTLY OVER JULY BUT WERE SLIGHTLY LOWER COMPARED TO OCTOBER 1975. THUS, UNEMPLOYMENT IN OCTOBER WAS 3.9 PERCENT OF LABOR FORCE (3.5 PERCENT IN OCTOBER 1975) AND UNEMPLOYMENT PLUS SHORT-TIME WORKERS REPRESENTED 5.7 PERCENT OF LABOR FORCE (COMPARED TO 5.4 PERCENT IN OCTOBER 1975).

8. FINANCIAL MARKETS. AS OF 22 DECEMBER: LIRA STEADY. SPOT/LIRA DOLLAR RATE 865.275. A LOW LEVEL OF COMMERCIAL DEMAND CONTINUES IN FOREIGN EXCHANGE MARKET. SIX MONTH FORWARD LIRA ALSO STEADY AT 950.275. LITTLE CHANGE IN OTHER MONEY MARKET RATES: INTERBANK 3-MONTH RATE 17.312. AVERAGE YIELD ON BONDS REMAINS AT ABOUT 14.00. IN THE STOCK MARKET, PRICES OF OLIVETTI AND PIRELLI ROSE NOTABLY ON RISING TURNOVER, AS RUMORS CIRCULATED OF POSSIBLE FOREIGN INVESTOR INTEREST. THERE SEEMED TO BE NO REACTION IN THE FOREIGN EXCHANGE MARKET TO RECENT STATEMENT BY MINISTER OF INDUSTRY DONATCATTIN TO EFFECT THAT 7 PERCENT TAX ON FOREIGN EXCHANGE PUR-

CHASES MAY BE EXTENDED BEYOND FEBRUARY 18 EXPIRATION DATE, A  
BELIEF WHICH BANK OF ITALY OFFICIAL CHARACTERIZED AS JUST ONE  
OPINION AMONG SEVERAL THAT COULD BE FOUND IN THE CABINET.  
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